

Message Text

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ACTION EA-12

INFO OCT-01 IO-14 ISO-00 AID-05 CIAE-00 COME-00 EB-08

FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04

OPIC-06 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15

STR-05 CEA-01 AGRE-00 DODE-00 PM-05 H-02 L-03

PA-02 PRS-01 /120 W

-----056117 120846Z /15

R 120720Z SEP 77

FM AMEMBASSY SEOUL

TO SECSTATE WASHDC 6334

INFO USMISSION GENEVA

AMCONSUL HONG KONG

AMEMBASSY TAIPEI

AMEMBASSY TOKYO

UNCLAS SECTION 1 OF 2 SEOUL 7706

GENEVA FOR USMTN

E.O. 11652: N/A

TAGS: ETRD, EFIN, ECON, MTN, KS

SUBJECT: KOREAN ECONOMY SHOWS MIXED OUTLOOK

REF: SEOUL 6633

SUMMARY: IN AUGUST KOREA'S EXPORTS INCREASED TO A RECORD HIGH OF \$921 MILLION BUT THE TREND LINE IN EXPORTS CONTINUES TO DECLERATE WHILE LC ARRIVALS MAINTAIN A DOWNWARD TREND. PRICE INCREASES IN AUGUST WERE PACED BY FOOD, WHERE THE ABSENCE OF PRICE CONTROLS ALLOW INFLATIONARY PRESSURES TO PREVAIL. A STRONG GOVERNMENT FISCAL SECTOR AND A DECLINE IN MONETARY HOLDINGS OF FOREIGN ASSETS CONTRIBUTED TO A NOMINAL INCREASE IN THE MONEY SUPPLY WHILE SAVINGS DEPOSITS OBTAINED A RECORD HIGH. FOREIGN EXCHANGE HOLDINGS AT \$3,776 MILLION ALSO REACHED A NEW HIGH. AS A RESULT OF HIGH LIQUIDITY, REAL ESTATE AND STOCK MARKET SPECULATION BECAME STRONG. DESPITE PROBLEMS THE UNCLASSIFIED

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DRAFT ECONOMIC OPERATION PLAN FOR 1978 REMAINS OPTIMISTIC.
END SUMMARY

1. KOREA'S ECONOMY IN AUGUST DISPLAYED SOMEWHAT A MIXED PICTURE. COMMODITY EXPORTS REACHED A NEW HIGH OF \$921 MILLION FOR THE MONTH (\$892.7 MILLION SEASONALLY ADJUSTED) BUT THE RATE OF GROWTH CONTINUES TO DECELERATE WITH GROWTH NOW AT 29.4 PERCENT ABOVE

AUGUST 1976 LEVEL. TOTAL EXPORTS AT MONTH'S END STOOD AT \$6,425 MILLION (MCI BASIS) OR 64 PERCENT OF THE TARGETED \$10 BILLION. LC ARRIVALS ALSO CONTINUED THEIR DOWNWARD TREND AT \$706 MILLION (\$738.5 MILLION SEASONALLY ADJUSTED), A 7.5 PERCENT DECLINE FROM JULY LEVELS AND 20.6 PERCENT OVER AUGUST 76 TOTALS. SINCE APRIL, LC ARRIVALS HAVE BEEN ON A SHARP DOWNWARD TREND, EVEN ON A SEASONALLY ADJUSTED BASIS, WHICH DOES NOT AUGUR WELL FOR FUTURE EXPORT PERFORMANCE.

2. FOREIGN EXCHANGE IMPORTS, ON THE OTHER HAND, CONTINUE TO GROW, REACHING \$808 MILLION (\$865.3 MILLION SEASONALLY ADJUSTED) UP 11.5 PERCENT FROM JULY WITH TOTAL FOREIGN EXCHANGE IMPORTS NOW 28.7 PERCENT ABOVE PREVIOUS YEAR'S LEVEL. THE ISSUANCE OF IMPORT LICENSES ALSO REMAINS AT A HIGH LEVEL, 35.4 PERCENT ABOVE THE FIRST EIGHT MONTHS OF 1976.

3. DESPITE THESE TRENDS FOREIGN EXCHANGE HOLDINGS REACHED A NEW HIGH OF \$3,776.7 MILLION IN AUGUST (THE ORIGINAL TARGETED FIGURE FOR 1977). SERVICE RECEIPTS CONTINUE TO BE THE BIG PLUS IN THE BALANCE OF PAYMENTS AND AT \$1,993 MILLION ARE DOUBLE THE AMOUNT RECEIVED FOR THE FIRST EIGHT MONTHS OF 1976. ALTOGETHER SERVICES SHOW A SURPLUS OF \$496 MILLION FOR 1977 WITH FOUR MONTHS REMAINING. THE CURRENT BALANCE, ON A FOREIGN EXCHANGE BASIS, STOOD AT \$1,243 MILLION AT THE END OF AUGUST.

4. THE INDEX OF INDUSTRIAL PRODUCTION FELL 4.6 PERCENT IN UNCLASSIFIED

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JULY (1.7 PERCENT SEASONALLY ADJUSTED) AND NOW STANDS AT 12.4 PERCENT ABOVE THE SAME PERIOD LAST YEAR. MANUFACTURING PRODUCTION DROPPED 5.2 PERCENT WHILE SHIPMENTS WERE DOWN 10.1 PERCENT. IN ADDITION TO SEASONAL FACTORS, IT IS EVIDENT THAT JUNE TOTALS BORROWED FROM THE ENSUING MONTH AS PRODUCERS AND RETAILERS SOUGHT TO ANTICIPATE THE VALUE ADDED TAX IMPOSED JULY 1. ON THE OTHER HAND, TOTAL CONSTRUCTION PERMITS INCREASED 1.9 PERCENT IN JULY; AND NOW STAND 7 PERCENT ABOVE THE SAME PERIOD LAST YEAR. FOR THE FIRST TIME THIS YEAR HOUSING CONSTRUCTION PERMITS DEMONSTRATED AN UPWARD TREND. DURING THE PAST FEW MONTHS THERE HAS, IN FACT, BEEN A SPECULATIVE BOOM IN APARTMENTS AND MORE RECENTLY IN REGULAR HOUSING. LAND AND HOUSING PRICES SOUTH OF THE HAN ARE REPORT TO HAVE RISEN BY UP TO 50 PERCENT THIS YEAR, WHILE EVEN IN LESS DESIRABLE AREAS PRICE INCREASES OF 20 TO 30 PERCENT ARE COMMON.

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GENEVA FOR USMTN

5. THE STOCK MARKET ALSO APPEARS TO BE SUCCUMBING TO SPECULATIVE FEVER WITH THE MARKET SCORING ITS BEST GAIN IN SEVEN MONTHS DURING THE FIRST WEEK IN SEPTEMBER ON HEAVY VOLUME. CONSTRUCTION ISSUES HAVE BEEN IN THE FORE-FRONT OF THE ADVANCE FOLLOWED BY ISSUES IN THE OVERSEAS SERVICE SECTOR. SPECULATORS AND INVESTORS MAY BE COUNTING ON INCREASED GOVERNMENT STIMULUS IN THE CONSTRUCTION SECTOR TO TAKE UP ANY SLACK IN GROWTH AS A RESULT OF A WEAKENING IN COMMODITY EXPORTS.

6. IN ADDITION A HIGH GROWTH RATE IN THE MONTY SUPPLY MAY BE FUELING SPECULATIVE ACTIVITIES. ALTHOUGH THE MONEY SUPPLY GREW ONLY 0.3 PERCENT IN AUGUST, IT SHOWS A 37.8 PERCENT GAIN OVER THE SAME PERIOD LAST YEAR. THE SMALL INCREASE RECORDED WAS PRINCIPALLY DUE TO A 71.6 BILLION WON (\$148 MILLION) DECLIN IN THE GOVERNMENT ACCOUNT AS A RESULT OF A STRONG FISCAL SURPLUS RECORDED IN AUGUST AND A 14 PERCENT FALL IN FOREIGN ASSETS IN THE MONETARY SYSTEM AS A RESULT OF CURBS ON SHORT TERM FOREIGN UNCLASSIFIED

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BORROWINGS. SAVINGS DEPOSITS ALSO ROSE TO A RECORD HIGH IN AUGUST OF 167.6 BILLION WON (\$345 MILLION). TOTAL SAVINGS ARE NOW AT 83 PERCENT OF THE YEAR'S TARGET.

7. THE LEAST PLEASANT NEWS WAS RECORDED ON THE PRICE FRONT. WHOLESALE PRICES ROSE 0.7 PERCENT (0.8 PERCENT SEASONALLY

ADJUSTED) FROM JULY AND ARE 7.0 PERCENT ABOVE DECEMBER. FOOD PRICES LED THE ADVANCES IN BOTH WHOLESALE AND RETAIL PRICES. CONSUMER PRICES WERE UP 1.3 PERCENT (1.7 PERCENT SEASONALLY ADJUSTED) FROM JULY TO AUGUST AND NOW STAND 9.5 PERCENT FOR THE FIRST EIGHT MONTHS WITH FOOD PRICES 13.3 PERCENT OVER DECEMBER LEVELS. SUCH STAPLES AS RICE, CHICKEN, CABBAGE SHOWED PARTICULAR SHARP PRICE INCREASES. THE CONTINUAL ADVANCES IN FOOD COSTS, WHERE THERE ARE NO GOVERNMENT PRICE CONTROLS, PROBABLY IS A GOOD INDICATION OF THE REPRESSED INFLATION IN OTHER SECTORS OF THE ECONOMY WHERE SUCH CONTROLS ARE IN EFFECT.

8. AS A RESULT OF THE VARIOUS TRENDS THE OVERALL WARNING INDICATOR REMAINED STEADY AT 1.6. IN THE MEANTIME IN EARLY SEPTEMBER THE GOVERNMENT MADE PUBLIC A DRAFT ECONOMIC PLAN AS A BASIS FOR NEXT YEARS ECONOMIC POLICY. THE DRAFT CALLS FOR A 11 PERCENT GROWTH RATE IN 1978 RETURNING TO 10 PERCENT IN 1979 WITH PER CAPITA GNP REACHING \$1,250 IN THE LATTER YEAR. IT FORECASTS A CURRENT ACCOUNT BALANCE IN 1978 AND A \$235 MILLION SURPLUS IN 1979 (A BALANCE OR WVEN SLIGHT SURPLUS REMAINS HIGHLY POSSIBLE FOR THIS YEAR). EXPORTS ARE PROJECTED AT \$12.7 BILLION IN 1978 (24.5 PERCENT ABOVE THIS YEAR'S FORECAST) AND \$15.5 BILLION THE FOLLOWING YEAR. FX RESERVES ARE TO REACH \$4.9 AND \$5.7 BILLION IN 1978 AND 79 RESPECTIVELY. AS USUAL, THE PLANNERS REMAIN OPTIMISTIC ON PRICE INCREASE: 10 PERCENT FOR 1977 AND 78 AND 9 PERCENT FOR 1979--PROBABLY THE TARGET LEAST LIKELY TO SUCCEED.

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